

- TABLE OF CONTENTS -

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS:

Balance Sheet - All Fund Types and Account Groups

Statement of Revenues, Expenditures and Changes in Fund
Balances - All Governmental Funds

Notes to Financial Statements

OFFICIALS

December 2, 1998

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of the **Virginia Public Building Authority** as of and for the year ended June 30, 1998, as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Public Building Authority at June 30, 1998, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

AUDITOR OF PUBLIC ACCOUNTS

JBS:aom
aom:33

VIRGINIA PUBLIC BUILDING AUTHORITY
BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
As of June 30, 1998

	Governmental Fund Types			Account Groups		
	General	Debt Service	Capital Projects	General Fixed Assets	General Long-Term Debt	Total
Assets and Other Debits:						
Cash and investments with trustee (Note 2):						
Cash and cash equivalents	\$ 51,241,514	\$ 742,751	\$ 46,207,759	\$ -	\$ -	\$ 98,192,024
Accrued interest receivable	118,728	2,223	199,697	-	-	320,648
Lease receivable (Note 3)	-	372,902,302	-	-	-	372,902,302
Fixed assets (Note 4)	-	-	-	638,462,835	-	638,462,835
Total Assets	51,360,242	373,647,276	46,407,456	638,462,835	-	1,109,877,809
Other Debits:						
Amount provided for retirement of general long-term debt	-	-	-	-	15,913	15,913
Amount to be provided for retirement of general long-term debt	-	-	-	-	942,639,776	942,639,776
Total Assets and Other Debits	\$ 51,360,242	\$ 373,647,276	\$ 46,407,456	\$ 638,462,835	\$ 942,655,689	\$ 2,052,533,498
Liabilities, Equity and Other Credits:						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ 1,493,210	\$ -	\$ -	1,493,210
Retainage payable	-	-	988,923	-	-	988,923
Due to agencies	16,136,086	-	-	-	-	16,136,086
Accrued interest sold	-	502,508	-	-	-	502,508
Deferred revenue - lease principal payments	-	372,902,302	-	-	-	372,902,302
Bonds payable (Note 5)	-	-	-	-	942,655,689	942,655,689
Total Liabilities	16,136,086	373,404,810	2,482,133	-	942,655,689	1,334,678,718
Equity and Other Credits:						
Investments in general fixed assets	-	-	-	638,462,835	-	638,462,835
Fund balance:						
Unreserved - Designated	-	15,913	-	-	-	15,913
Unreserved - Undesignated	35,224,156	226,553	43,925,323	-	-	79,376,032
Total Equity and Other Credits	35,224,156	242,466	43,925,323	638,462,835	-	717,854,780
Total Liabilities and Fund Equity	\$ 51,360,242	\$ 373,647,276	\$ 46,407,456	\$ 638,462,835	\$ 942,655,689	\$ 2,052,533,498

The accompanying notes to financial statements are an integral part of this statement.

VIRGINIA PUBLIC BUILDING AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - ALL GOVERNMENTAL FUNDS
For the Year Ended June 30, 1998

	General Fund	Debt Service Fund	Capital Projects Fund	Total
Revenues:				
Rental of land and building	\$ -	\$ 39,022,138	\$ -	\$ 39,022,138
Interest on investments	4,346,694	10,134	3,120,930	7,477,758
Interest on capital leases	-	18,100,798	-	18,100,798
Appropriations from the Commonwealth	96,027	6,566,044	-	6,662,071
Total revenues	4,442,721	63,699,114	3,120,930	71,262,765
Expenditures:				
Current:				
Financial services	-	109,668	-	109,668
Underwriter's discount	128,552	668,938	-	797,490
Legal fees	-	4,732	-	4,732
Rebate costs	96,027	-	-	96,027
Advertising	-	1,320	-	1,320
Printing	-	12,694	-	12,694
Capital outlay	-	-	22,323,400	22,323,400
Distributions to fund State capital projects	90,709,128	-	-	90,709,128
Jail reimbursement projects	6,903,992	-	-	6,903,992
Miscellaneous	-	6,301	-	6,301
Debt Service:				
Principal retirement	-	75,305,000	-	75,305,000
Interest and fiscal charges	-	42,996,409	-	42,996,409
Total expenditures	97,837,699	119,105,062	22,323,400	239,266,161
Deficiency of revenues under expenditures	(93,394,978)	(55,405,948)	(19,202,470)	(168,003,396)
Other financing sources (uses) :				
Proceeds from the sale of bond anticipation notes	35,000,000	-	-	35,000,000
Proceeds from sale of bonds	5,809,934	35,147,701	-	40,957,635
Proceeds of refunding bonds	-	151,139,298	-	151,139,298
Payments to refunded bond escrow agent	-	(150,309,262)	-	(150,309,262)
Transfer among funds	(1,530,715)	(85,521)	1,616,236	-
Lease principal payments	-	19,641,750	-	19,641,750
Total other financing sources	39,279,219	55,533,966	1,616,236	96,429,421
Excess (deficiency) of revenues and other financing sources over expenditures	(54,115,759)	128,018	(17,586,234)	(71,573,975)
Fund balance at July 1, 1997	89,339,915	114,448	61,511,557	150,965,920
Fund balance at June 30, 1998	\$ 35,224,156	\$ 242,466	\$ 43,925,323	\$ 79,391,945

The accompanying notes to financial statements are an integral part of this statement.

VIRGINIA PUBLIC BUILDING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Public Building Authority (the Authority) was created in 1981 by §2.1-234.10 et seq., of the Code of Virginia for the purpose of acquiring, constructing, and operating public buildings for the use of the Commonwealth of Virginia (the Commonwealth) and its political subdivisions. The Authority is authorized to undertake a project only upon approval of the General Assembly of the Commonwealth. Prior to 1997, the Authority issued bonds to finance capital projects under its 1988 Master Indenture of Trust. Under the 1988 Indenture the Authority built the project and then leased all of its projects to the Commonwealth of Virginia. The lease agreements provided for lease payments at amounts equal to debt service and amounts necessary to fund the Authority's administrative expenses.

In 1997 the Authority created the 1997 Master Indenture of Trust. Under the 1997 Indenture there are no lease agreements. Debt service on these projects is provided through appropriations from the Commonwealth.

A separate report is prepared for the Commonwealth of Virginia which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Authority is included in the general-purpose financial statements of the Commonwealth.

The accounting and reporting policies of the Authority conform to generally accepted accounting principles (GAAP) applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB), the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the Authority's more significant policies.

B. Basis of Accounting

The accompanying financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when they become measurable and available to fund current operations. Expenditures are recognized when the related fund liability is incurred except for principal and interest on long-term debt which is recognized when due.

The Authority uses the cash basis of accounting during the year and reports on the modified accrual basis for financial statement purposes at the end of the fiscal year.

C. Fund Accounting

The accounts of the Authority are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Authority resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent. The individual funds are grouped, in the financial statements in this report, into three fund types as discussed below.

Governmental Funds:

General Fund

The General Fund accounts for all financial resources except those required to be accounted for in another fund. This includes the receipt and disbursement of bond proceeds issued under the Authority's 1997 Master Indenture of Trust. For projects fully funded under the Authority's 1997 Indenture, title remains with the Commonwealth.

Debt Service Fund

Debt Service funds account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. Debt Service funds consist of bond funds, issuance expense funds, and rebate funds. The funds were established in accordance with the provisions of the Trust Agreement and Supplemental Trust Agreements entered into with The Bank of New York for each of the bond series of the Authority.

Capital Project Fund

Capital Project funds account for financial resources to be used for the acquisition, construction, and improvement of major capital projects. For the Authority, this includes projects that were fully or partially funded under the 1988 Master Indenture of Trust. Title for these projects remains with the Authority.

D. Account Groups

Account groups are used to establish accounting control and accountability for general fixed assets and the unmatured principal of general long-term debt. Fixed assets reported in the General Fixed Asset Account Group do not represent financial resources available for appropriation and expenditure. The cost for the acquisition of general fixed assets is recorded as an expenditure at the time of purchase in the Governmental Funds and capitalized in the Authority's General Fixed Asset Account Group for those fixed assets fully or partially funded under the Authority's 1988 Master Indenture of Trust. Assets fully funded under the Authority's 1997 Master Indenture of Trust are owned by the Commonwealth and are not capitalized in the Authority's General Fixed Asset Account Group. For financial reporting purposes, depreciation is not recorded. Bonds payable reported in the General Long-Term Debt Account Group consists of unmatured principal on bonds issued by the Authority.

E. Total Columns

Total columns on the financial statements are captioned "Total - Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

F. Budget to Actual Statement

The Authority does not prepare a budget due to the nature of activity accounted for by the Authority. Therefore, a Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual is not included in the financial statements.

2. CASH AND INVESTMENTS

Cash and investments of the Authority are held by The Bank of New York. Cash is defined as demand deposits, time deposits, and certificates of deposit in accordance with §2.1-329 of the Code of Virginia. Cash equivalents represent deposits and short-term investments with original maturities of less than three months.

In accordance with the Trust Subsidiary Act, §6.132.8 of the Code of Virginia, cash held by the trustee while awaiting investment or distribution is not used by an affiliate bank of the trustee in the conduct of its business unless the affiliate bank delivers securities to the trust department as collateral that is at least equal to the market value of the trust funds held on deposit in excess of amounts insured by federal deposit insurance.

The Trust Agreement and Supplemental Trust Agreements with The Bank of New York (Trustee) authorize the Trustee, on behalf of the Authority, to invest in legal investments for public sinking funds and other public funds as outlined in §2.1-327 and §2.1-328 of the Code of Virginia which include repurchase agreements, certificates of deposit, commercial paper, bankers' acceptances, United States Government and agency securities, and money market funds.

The Authority's cash and cash equivalents are categorized on the following page to give an indication of the level of credit risk assumed by the Authority at June 30, 1998. Credit risk is the risk that the Authority may not be able to obtain possession of its investment instrument or collateral at maturity. Risk category 1 includes investments which are insured or registered or for which the securities are held by the Authority or its safekeeping agent in the Authority's name. Risk category 2 includes uninsured or unregistered investments for which the securities are held in the Authority's name by the trust department of the financial institution that purchased the investments for the Authority. There are no investments in risk category 2. Risk category 3 includes uninsured or unregistered investments purchased and held by the Trustee for the Authority.

	Risk Category		Non- Categorized	Carrying Amount	Market Value
	1	3			
Cash and Cash equivalents:					
Cash on deposit	\$ -	\$ -	\$ 14,680	\$ 14,680	\$ 14,680
Commercial paper	1,974,762	-	-	1,974,762	1,974,762
Repurchase agreements	-	202,000	-	202,000	202,000
Government Money Trust	-	-	27,031,847	27,031,847	27,031,847
Local Government Investment Pool	-	-	30,995,206	30,995,206	30,995,206
State Non-arbitrage Program	-	-	37,973,529	37,973,529	37,973,529
Total cash and cash equivalents	<u>\$ 1,974,762</u>	<u>\$ 202,000</u>	<u>\$ 96,015,262</u>	<u>\$ 98,192,024</u>	<u>\$ 98,192,024</u>

3. LEASES RECEIVABLE

The Authority has entered into lease agreements as lessor with public institutions for the lease of fixed assets owned by the Authority. The leases relating to certain facilities of the Authority qualify as capital leases for accounting purposes. Leases receivable have been recorded at the net present value of the future minimum lease payments for these facilities. A summary of the future minimum lease payments follows:

Year Ending June 30	Principal	Interest	Total
1999	\$ 21,275,072	\$ 16,263,492	\$ 37,538,564
2000	22,109,896	15,315,185	37,425,081
2001	23,510,890	13,886,625	37,397,515
2002	24,816,561	12,611,591	37,428,152
2003	25,335,981	10,165,780	35,501,761
2004-2018	<u>255,853,903</u>	<u>61,840,523</u>	<u>317,694,426</u>
Total	<u>\$372,902,303</u>	<u>\$130,083,196</u>	<u>\$502,985,499</u>

4. GENERAL FIXED ASSETS

The following schedule presents the changes in the General Fixed Asset Account Group during the fiscal year ended June 30, 1998.

	Balance July 1, 1997 <u>(as restated)</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, 1998 <u></u>
Land	\$ 42,164,920	\$ 741,001	\$ -	\$ 42,905,921
Buildings	273,016,856	33,329,980	23,071,221	283,275,615
Equipment	18,461,550	20,832,770	-	39,294,320
Improvements other than buildings	2,261,513	3,392,791	806,016	4,848,288
Construction in progress	<u>198,847,710</u>	<u>86,460,439</u>	<u>17,169,458</u>	<u>268,138,691</u>
Total	<u>\$ 534,752,549</u>	<u>\$ 144,756,981</u>	<u>\$ 41,046,695</u>	<u>\$ 638,462,835</u>

Additions to the General Fixed Asset Account Group represent increases during the fiscal year to projects fully or partially funded under the Authority's 1988 Master Indenture of Trust. Assets that have been converted to capital leases during the year are reflected as deletions.

5. LONG-TERM DEBT

Changes in Long-Term Debt

The following is a summary of changes in long-term debt of the Authority for the year ended June 30, 1998.

Bonds payable at July 1, 1997	\$902,603,904
Bonds issued	187,425,000
Bonds redeemed	(40,305,000)
Bonds defeased	(110,550,000)
Amortized discount for fiscal year 1998	<u>3,481,785</u>
Bonds payable at June 30, 1998	<u>\$942,655,689</u>

Annual Requirements to Amortize Long-Term Debt

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 49,400,000	\$ 44,024,484	\$ 93,424,484
2000	52,575,000	42,476,796	95,051,796
2001	55,905,000	39,415,439	95,320,439
2002	58,810,000	36,419,258	95,229,258
2003	59,695,000	33,290,758	92,985,758
2004-2018	708,430,000	214,352,692	922,782,692
Less: unamortized discounts	<u>(42,159,311)</u>	<u>-</u>	<u>(42,159,311)</u>
Total	<u>\$942,655,689</u>	<u>\$409,979,427</u>	<u>\$1,352,635,116</u>

6. DEFEASANCE OF DEBT

In March 1998, the Authority issued \$147,000,000 State Building Revenue Refunding Bonds Series 1998 A. A portion of the proceeds refunded \$98,395,000 of Series 1992 C bonds and \$12,155,000 of Series 1994 A bonds. Bond proceeds of \$117,113,549 were placed with an escrow agent to provide for all future debt service on the advance refunded bonds. Total debt service payments over the life of the bonds have been reduced by \$4,313,712 resulting in an economic gain (savings) of \$3,353,313 discounted at 4.6637 percent.

In prior years, the Authority defeased certain revenue bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the assets held in trust and the liability of the defeased bonds are not included in the financial statements.

As of June 30, 1998, the outstanding balances of the Authority's defeased debt are as follows:

State Building Revenue Refunding Bonds, Series 1987A	\$ 57,550,000
State Building Revenue Bonds, Series 1988A	\$ 105,869,625
State Building Revenue Bonds, Series 1989A	\$ 7,310,000
State Building Revenue Bonds, Series 1991A	\$ 43,990,000
State Building Revenue Bonds, Series 1992C	\$ 98,395,000
State Building Revenue Bonds, Series 1994A	\$ 50,910,000

7. ARBITRAGE REBATE

The Tax Reform Act of 1986 requires that governmental entities issuing debt subsequent to August 1986, calculate and rebate arbitrage earnings to the federal government. Government entities must comply with the rebate regulations in order for their bonds to maintain a tax-exempt status. The regulations require the excess of the aggregate amount earned on investments purchased with bond proceeds over the amount that would have been earned if the investments were invested at a rate equal to the bond yield to be rebated to the federal government. Income earned on excess earnings is also subject to rebate. Some bonds of the Authority may be exempt from the rebate regulations if they meet statutory exceptions to the rebate

requirements. Rebates are calculated and paid by the Authority as required by law on bond issues that fall under the regulations and do not qualify for exceptions. During the fiscal year, rebate payments in the amount \$96,027 were made to the federal government.

8. SURETY BOND

Susan F. Dewey, the Treasurer of Virginia, who also serves as the Treasurer of the Authority, was covered under a Faithful Performance of Duty Bond in the amount of \$500,000 with the Fidelity and Deposit Company of Maryland as surety.

Certain employees of the State Treasury are responsible for maintaining the accounting records of the Authority. Such employees, as well as parties acting on behalf of the Authority, such as Authority board members, were covered by a Faithful Performance Duty Bond administered by the Commonwealth of Virginia's Department of General Services, Division of Risk Management with liability limits of \$500,000 for each occurrence.

9. YEAR 2000 READINESS

Many existing computer programs use only two digits to identify a year in the data field. These programs were designed and developed without considering the impact of the upcoming change in the century. If not corrected, these programs could fail or create additional problems. The Authority recognizes the need to ensure that its operations will not be adversely impacted by Year 2000 software failures.

The Authority does not have any internal critical systems. In addition, management has received assurance from the financial institutions used by the Authority that Year 2000 compliant systems have been implemented or will be implemented prior to the Year 2000.

VIRGINIA PUBLIC BUILDING AUTHORITY
Richmond, Virginia

BOARD MEMBERS

As of June 30, 1998

Jimmie R. Bolton, Chairman

Alphonso L. Grant, Vice Chairman

Susan F. Dewey, Secretary/Treasurer

Scot N. Creech

William E. Landsidle

Myron J. Mintz

Barbara M. Rose